8 JUL 1982

MEMORANDUM FOR: Chief, Audit Staff

VIA:

AInspector General $\mathscr{A}\mathscr{L}$

FROM:

James N. Glerum

Director of Personnel

SUBJECT:

Report of Audit, Government Employees Health

Association, Inc., for the period 1 January 1981 -

31 December 1981

- 1. I have received the 1981 GEHA Report of Audit and noted the three recommendations contained therein. While these recommendations (incorporated from previous reports) have not been fully resolved, there has been, as noted in your report, significant activity and resources directed towards achieving a final settlement. The GEHA Board of Directors is scheduled to meet in the near future to review the results of this activity and following that review I will advise you of their recommendations for action necessary to resolve these issues.
- 2. In the interim, I wish to commend the audit team for their performance in conducting this survey. Their work was accomplished in a courteous, professional manner with little or no disruption to ongoing activity. Please convey my appreciation for a job well done.

/s/ James N. Gierum

James N. Glerum

Distribution:

Original - Addressee

1 - D/Pers

1 - IG

1 - C/IB

1 - C/BSD

1 - BSD Chrono

DD/Pers/SP/BSD/

(8 July 1982)

25X1

25X1

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070017-1

15 June 1982

	MEMORANDUM FOR: Director of Personnel	
	VIA: Inspector General	
5X1	FROM: Chief, Audit Staff	
	SUBJECT: Report of Audit, Government Employees Health Association, Inc., For the Period 1 January 1981 - 31 December 1981	
	1. Subject report is attached. Please advise me of the action taken on the recommendations contained in the report.	
	2. We appreciate the cooperation and assistance provided by your staff during the audit.	
• •		25X
	Attachment: As stated	
	Distribution: Pig D/Pers 1 - C/Board of Directors 1 - D/OF 1 - O/Compt/BMG	
		25X
	WARNING NOTICE SENSITIVE INTELLIGENCE SOURCES AND METHODS INVOLVED Approved For Release 2005/08/03: CIA-RDP85-00964R000200070017-1	

REPORT OF AUDIT
Government Employees Health Association, Inc.

For the Period 1 January 1981 - 31 December 1981

SUMMARY

1. The Government Employees Health Association, Inc. (GEHA) continues to be administered in an efficient manner. Administrative controls, procedures and records were generally effective and in accordance with applicable requirements. Three of the 31 December 1979 audit recommendations concerning investment performance have not been completely resolved. These are commented on again in this report. Observations pertaining to other administrative matters were discussed with responsible officers and resolved during the audit.

SCOPE AND OPINION

- 2. We have examined the GEHA statement of financial position as of 31 December 1981 and the related statements of changes in reserve fund balances and changes in financial position. The examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures by GEHA, as we considered necessary under the circumstances.
- 3. In our opinion, the above mentioned financial statements, Exhibits A, B, and C, present fairly the financial position of GEHA at 31 December 1981 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of Employees in the Insurance Branch.

25X1

25X1

LUNTILLALIAL

25X1

25X1

Approved For Release 2005/08/03 : CIA-RDP86-00964R000	200070017-1
5. GEHA maintains abou insurance active and retired employees. The following peffect:	e accounts for plans are in
PLANS	ACCOUNTS
<u>Life Insurance</u> :	
United Benefit Life Insurance Company Active Retired	
Worldwide Assurance for Employees of Public Agencies	
Health Insurance:	
Association Benefit Plan Active Retired	
Contract Hospitalization	
Specified Diseases	
Disability Insurance:	
Income Replacement	
Accidental Death and Dismemberment Insurance:	
Flight and Accident	
Travel Insurance:	
Air Flight	
Military Air Flight	

6. The Association Benefit Plan received subscription income of \$17.8 million, paid out benefits of \$18.1 million, and incurred net operating expenses of \$1.2 million for a net underwriting loss of \$1.5 million. This loss was offset from reserves held by Mutual of Omaha. GEHA has reduced certain benefits (as mandated by the Office of Personnel Management) and increased premiums for 1982 to bring the program back to a self-sustaining basis.

Approved For Release 2005/08/03: CIA-RDP86-00964R000200070017-1 DETAILED COMMENTS

Investment Performance

25X1

25X1

The 31 December 1979 report of audit contained several recommendations concerning management of GEHA's investment portfolio by BEA Associates, an investment management firm. GEHA management is working on the three recommendations not yet resolved. The GEHA Board of Directors has appointed an Investment Committee which hired an outside consultant to assist in the review and evaluation of GEHA's investment policy and BEA's performance. This committee has had meetings with BEA and with has requested and received additional data from BEA for analysis and comment by and has scheduled a meeting of the Board of Directors, BEA representatives, and lin July 1982. These actions should provide the Board of Directors with the information necessary to comply with the recommendations. We hereby incorporate those recommendations not yet cleared in this report:

25X1

25X1

Recommendation #1: That the GEHA Board of Directors reevaluate and document GEHA's investment objectives.

Recommendation #2: That the GEHA Board of Directors consider whether dealing through other investment broker(s), or adopting an alternate means of handling investments, might be more advantageous than current arrangements, and that it document both the decisions and the basis on which they are made.

Recommendation #3: That the GEHA Board of Directors establish a written policy concerning the holding of fixed income securities which have declined in current market value but are yielding a high rate of return, and that the policy determined be issued as mandatory guidance to any entity executing investment decisions on behalf of GEHA.

Approved For Release 2005/08/03 : CIA-RDP86-00964R000200070017-1

Government Employees Health Association, Inc.
Statement of Financial Position
31 December 1981 and 1980

	ASSETS	1981	1980
Cash Investments (Note Claims Receivable Contingent Assets	•	\$ 241,902 4,782,454 244,836	\$ 454,446 4,426,411 80,137
funds Withheld for Specified Less: Reserve Equipment (Net of		139,666 (139,666) 1,734	154,666 (154,666) 2,312
Total Assets	•	\$5,270,926	\$4,963,306
	LIABILITIES AND	RESERVES	•
Accounts Payable Prepaid Premiums Accrued Salaries Accrued Dependent	Premiums	\$ 27,389 181,205 49,951 17,941	\$ 6,796 180,357 24,543 16,804
Total Liabilities		276,486	228,500
Reserves (Exhibit	B)	4,994,440	4,734,806
Total Liabilities	and Reserves	\$5,270,926	\$4,963,306

Note 1: Investments are recorded at cost; market value at 31 December 1981 was \$4,373,300 and at 31 December 1980 was \$4,250,700.

CONFIDENTIALApproved For Release 2005/08/03 : CIA-RDP86-00964R000200070017-1

Government Employees Health Association, Inc. Statement of Changes in Reserve Fund Balances For the Year Ended 31 December 1981

Ralanco 1 January 2004	<u>Total</u>	UBLIC Investm in Common <u>Stock</u>	ent UBLIC <u>General</u>	Association Benefit Plan	Air Contract Flight Hospital- Plan ization	General Fund
Balance, 1 January 1981 Dincreases:	\$4,734,806	\$378,258	\$3,855,560	\$332,239	\$30,825 \$77,660	\$60,264
Premiums Withheld from or Retu by Underwriter Investment Income Gain on Sale of Stock Miscellaneous	urned 649,357 558,764 122,459 978	75,469 122,459	194,721 462,996	444,942	695 8,999 3,722 9,328	7,249
Total Increases Decreases:	1,331,558	197,928	657,717	444,942	4,417 18,327	978 8,227
Salaries Premiums for UBLIC Dependent Coverage	527,676 43,031		19,956	492,096	3,125 12,499	
Loss on Šale of Bonds Investment Fees and Expenses Miscellaneous	441,439 48,639 11,139	15,759	43,031 422,898 31,499 2,000	5 917	3,399 8,520 253 635	6,622 493
Total Decreases	1,071,924	15,759	519,384	5,813 497,909	6,777 21,654	3,326 10,441
Balance, 31 December 1981	\$4,994,440	\$560,427	\$3,993,893		\$28,465 \$74,333	\$58,050
	the control of the co					



Government Employees Health Association, Inc. Statement of Changes in Financial Position For the Year Ended 31 December 1981

Resources Provided by:

Sale of Investments Claims Reimbursed by Underwriters:	\$13,923,816
Hospitalization Death *Premiums from Policyholders Premiums from Underwriters Interest Income Dividend Income Decrease in Cash Increase in Accounts Payable Miscellaneous	9,750,711 606,254 1,124,115 649,357 483,295 75,469 212,544 47,138 978
Resources Applied to:	\$26,873,677
Purchase of Investments Claims Paid to Policyholders: Hospitalization Death *Premiums Paid to Underwriters Salaries Paid Investment Fees and Expenses Miscellaneous	\$14,598,839 9,915,410 606,254 1,166,298 527,676 48,639 10,561
•	\$26,873,677

^{*} Does not include premiums of \$17.8 million for Associated Benefit Plan which are withheld by payroll and passed through GEHA to Mutual of Omaha.